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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 007283

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STATE FOR NEA/ELA
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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EAID](#) [PREL](#) [JO](#)
SUBJECT: UNSCHEDULED FUEL PRICE HIKE IMMINENT

REF: A. AMMAN 5849

[1](#)B. AMMAN 5725
[1](#)C. AMMAN 5451
[1](#)D. AMMAN 5311
[1](#)E. AMMAN 5228

Classified By: CDA David Hale for reasons 1.4 B, D.

[1](#)1. (C) SUMMARY: Minister of Finance Adel Al-Kodah told Charge September 11 that the Government of Jordan (GOJ) would institute a second, unscheduled fuel price hike September 20, after consulting with the King on the subject the same day. The King had earlier explained to Charge that he was determined to accelerate the planned cuts, in light of higher world oil prices and the failure to gain additional assistance from Gulf states. (After agreeing to the new schedule, PM Badran got cold feet over the weekend and had to be persuaded by the King's advisors late on September 10 to go forward with the new plan.)

[1](#)2. (C) The price increase -- likely to be about 12 percent for diesel -- would partially offset the continued rise of crude oil costs since the government last presented an oil subsidy-elimination plan to the IMF in June (Ref D). This would be an additional increase since prices first rose July 9; two other planned increases would continue on schedule in 2006 and 2007. The Minister did not state that the plan would achieve parity with world market prices. Noting riots in Yemen earlier this year after the announcement of price hikes, Al-Kodah expressed the hope that advance planning would prevent such a reaction in Jordan, but complained that Gulf neighbors who could afford to give Jordan more oil were acting as if they were not fully cognizant of what the implications were for the region if fuel price hikes sparked riots here. Al-Kodah plans to be in Washington September 21 for World Bank/IMF Meetings and returns to Jordan on September 27. END SUMMARY.

Budget Revenue and Expenditure Picture Good

[1](#)3. (C) In a brief pull-aside from a signing ceremony, Minister of Finance Al-Kodah explained to Charge that the GOJ's FY 2005 budget planning was coming along, with revenues now projected to come in at not less than 355 million Jordanian Dinars (USD \$500 million) above the original budget. He also explained that the GOJ had succeeded in reducing capital expenditures by JD 200 million (by not starting new projects) and cutting general expenditures by JD 220 million. (NOTE: This tracks the austerity measures outlined in Refs A, B. END NOTE.)

Need to Keep Fuel Subsidies in Check

[1](#)4. (C) Turning to fuel subsidies, Al-Kodah noted that the GOJ had already saved JD 115 million with the July 9 fuel price hikes (Ref C). But in a special consultation with the King earlier in the day to review fuel subsidies, a decision had been finalized to announce a cabinet-approved fuel increase on September 20. Al-Kodah said this fuel price rise would save the GOJ about JD 40 million (USD \$56.4 million). If the GOJ uses the same formula it did in the last price hike (Refs C, E), this would mean an additional increase in diesel and heating fuel of about 12 percent. Al-Kodah explained the increase became necessary as the GOJ's revised budget projection of crude oil prices at USD \$50/barrel (from an original of USD \$42/barrel) was overshadowed by what appeared to be a projected average market price of about USD \$64-65/barrel for the remainder of the budget year.

Jordan's Gulf Oil Grants: "Hardly Any Effect"

[1](#)5. (C) Regarding cash grants from Saudi Arabia, Al-Kodah said these had already been offset by oil price rises and consequently had "hardly any (net positive) effect" on Jordan's fiscal picture. The Saudis were donating USD \$22 million a month since May 2005, he noted, but the donation was fixed in cash at a time when world oil prices were much

lower, and when translated into actual oil, was far lower than the 50,000 barrels of oil per day the Saudis had been donating. Charge referred briefly to high-level USG efforts to convince counterparts in Saudi Arabia, Kuwait and the UAE to donate more oil to Jordan. The GOJ's further elimination of fuel subsidies might help convince potential donors that Jordan was sincere in its plans to end its dependency, he noted.

16. (C) Referring to fuel price riots in Yemen and subsequent clashes that left a number of people dead, Al-Kodah said that the Gulf state leaders should look closely at what happened in Yemen when price hikes were announced. These issues have consequences that can seriously affect the region, he said. He averred that Jordan would try to plan carefully to minimize any negative reactions to the price hikes, but could not say whether Jordan's streets would accept the price hikes or, conversely, stage demonstrations.

17. (C) COMMENT: Timed to follow widespread reports of fuel price increases worldwide in the wake of Hurricane Katrina, frequent references in the press to oil at \$100/barrel, and a number of fuel hike increases in major world economies that heavily subsidize fuel prices, this fuel price increase has the appearance of being almost inevitable. The big question for a government looking at a yawning deficit -- which Al-Kodah conservatively estimated might be 7.5 percent of GDP -- is whether the price hike will be enough.

HALE